

# Is there a better deal?

*A Summary Report*  
on  
**A Comparative Study of  
Workers' Compensation and  
Private Insurance**

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*Crouse Dorgan Consultants Inc.*



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## Overview

The cost of workers' compensation coverage is an ongoing concern for all employers in Alberta. During the past year, many employers have indicated to the Workers' Compensation Board - Alberta that they believe the private insurance sector is capable of providing the same compensation coverage as the WCB, but at less cost. As a result of this concern, the Workers' Compensation Board - Alberta commissioned an independent study of cost comparisons between the WCB and private insurers. This study had two main objectives:

1. *"To have an outside actuarial consulting firm with relevant professional experience compare the costs, services and benefits provided by the WCB - Alberta with comparable coverage available in the insurance marketplace in Alberta."*
2. *"To communicate the results of the independent study to the employers of Alberta."*

This summary report fulfills the second objective of this study. It provides a brief overview of the study design, methodology and conclusions.

**Should you wish a copy of the complete report, please clip the coupon included in this report and send it to the Workers' Compensation Board - Alberta. A copy of the full report will be sent to you by mail.**

## Study Limitations

This study was designed solely to provide a cost comparison between private insurance coverage and coverage provided by the WCB. No attempt was made to either justify or refute the need for WCB coverage as it currently exists.

WCB legislation provides employers with freedom from suit by employees who are injured during the course of their work-related duties. However, no attempt was made to factor this freedom from suit into either the cost or value comparisons which form the basis of this study.

## Summary Of Study Findings

The study produced three major findings:

- The scope of coverage available in the current insurance market is not the same as the scope of coverage provided by the Workers' Compensation Board - Alberta.
- In the current marketplace, private insurance would be a better deal for some employers, but not so for other employers.
- If private insurers were to offer exactly the same coverage as the WCB currently offers, the overall costs would not change significantly. However, in some cases, employer costs would be significantly higher.

## ***Project Consultants***

Crouse Dorgan Consultants Inc. produced the cost and benefit analyses on which this study is based. Crouse Dorgan Consultants Inc. is an Edmonton-based firm which provides strategic consulting services to public and private sector employers in the areas of human resources, total compensation, and actuarial services.

The chief members of the project team were John Crouse and Perry Dorgan. Both John and Perry are principals of Crouse Dorgan Consultants Inc. They brought 40 years of experience in actuarial and benefits related analysis to the project.

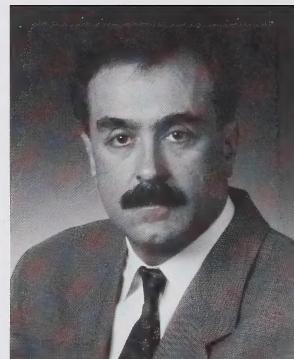
To ensure the results of this complex study were communicated clearly and effectively to employers, Crouse Dorgan engaged the services of Terence Harding. Terence is President of Harwick Consultants Ltd., an Edmonton-based consulting firm which specializes helping both public and private sector clients communicate with broad publics.



*John Crouse, MA, FSA, FCIA  
Principal  
Crouse Dorgan Consultants Inc.*



*Perry Dorgan  
Principal  
Crouse Dorgan Consultants Inc.*



*Terence Harding  
President  
Harwick Consultants Ltd.*

## **Project Steering Committee**

Because the employers of Alberta are the audience for this study, it was important to have employer representation. A Steering Committee was created which represented a broad mix of employers, all of whom have an ongoing interest in the cost of workers' compensation. The Steering Committee helped the study team determine areas of employer interest and provided guidance on the overall study design and methodology.

It is important to note that the Steering Committee did not have direct involvement in the cost and benefits comparisons presented in this study. Therefore, its members cannot endorse the technical validity of these comparisons or the conclusions which were drawn from them by the Project Consultants.



*Don M. Herring*  
Managing Director  
Canadian Association of  
Oilwell Drilling Contractors  
Calgary, Alberta



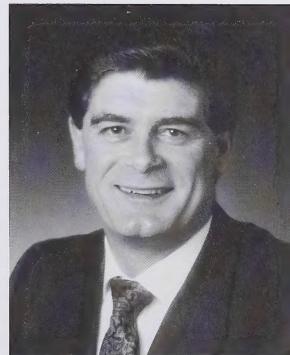
*Paul Petry*  
Vice-President, Human Resources  
Canbra Foods  
Lethbridge, Alberta  
Member, Industrial Association  
of Southern Alberta



*Robert W. Saari*  
Vice-President, Alberta Division  
Canadian Manufacturers' Association  
Edmonton, Alberta



*Ladis J. Vegh*  
Vice-President, Risk and Pension  
Fund Management  
Canadian Utilities  
Edmonton, Alberta



*Doug Wright*  
Director of Provincial Affairs, Alberta  
Canadian Federation of  
Independent Business  
Edmonton, Alberta

Table 1  
**Benefit Comparison Grid**

Benefit Provision	WCB		INSURANCE	
DISABILITY	Description	Rating	Description	Rating
Coverage	Occupational only Mostly injury (accident)	1	24 hours Injury & Sickness	1.3 – 2.0
Payable from	1st Day	1	1st day injury 4th-7th day sickness	1.0
Benefit period	For life	1	To Age 65 definition changes @ 2 years	0.9
Benefit %	90% of net, no offsets since WCB is <i>First Payer</i>	1	70% gross earnings, offset by CPP benefits	0.7
Salary maximum	\$40,000	1	Generally higher than \$40,000	1.1
Taxable	No	1	Yes, if paid by employer	0.9
Minimum benefit	\$730/month	1	Generally none	1.0
Partial disability benefits	Yes, by % of rated disability	1	Some <i>earnings loss</i> benefits paid for shorter term disabilities, some dismemberment	0.9
Additional Benefits	Yes, for disfigurement and apprentices	1	None, other than some dismemberment benefits	0.9
Cost of Living Adjustments	Yes	1	Seldom	0.7
Aggregate		1	<i>Relative Weighting - 76%</i>	0.8
DEATH				
Basic benefit	Permanent total disability benefit to spouse	1	Lump sum of up to 3x earnings, some survivor benefits (SIB)	1.7
Residual benefit	Pension ceases when youngest child 18, residual of 3x if employed, 8x if not, 75% if unable to work	1	Dowry benefits in Survivor Plans (SIB), although rare	0.9
Additional Benefits	Burial & some spouses benefits	1	None	n/a
Aggregate		1	<i>Relative Weighting - 3%</i>	1.3
MEDICAL AID				
Basic	Reimburse Alberta Health Care (AHC) for all related costs	1	AHC would pick up physician & hospital benefits, not private insurance	n/a
Additional	Prescription drugs, physiotherapy	1	EHC Plans would pick up drugs, physiotherapy, etc.	0.8
Miscellaneous	Clothing, travel, home care, treatment @ Rehab Centre	1	Some home care (private duty), minimal benefits under LTD rehab provisions	0.9
Aggregate		1	<i>Relative Weighting - 16%</i>	0.5
VOCATIONAL REHAB				
Basic	Physical & Psychological assistance Vocational training	1	Minimal counselling Minimal training	0.6
Additional	Supplements & expenses	1	Partial offsets of rehab earnings	0.5
Miscellaneous	Dependent spouse has same access as injured worker	1	None	n/a
Aggregate		1	<i>Relative Weighting - 5%</i>	0.5
GRAND AGGREGATE		1		0.76

## ***Creating An Apples To Apples Comparison***

Because the benefits provided by the WCB and those available in the marketplace are not directly comparable, it was necessary to break out the components of WCB coverage and then compare them to equivalent benefits in the private insurance sector.

For the purpose of this study, WCB benefits were broken down into the following components:

- Disability
- Death
- Medical Aid
- Vocational Rehabilitation.

It is these components on which the study's benefit comparisons were based. The study also looked at cost comparisons by industry as well as a broad comparison of administrative expenses.

## ***Results Of Benefit Comparisons***

Table 1 on the opposite page shows the results of the comparisons between the scope of the components of WCB benefits and the comparable scope of benefits provided by private insurance.

The purpose of this part of the study was to compare the current level of WCB benefits with those currently available in the private insurance sector. To establish a basis of comparison, each WCB benefit component was given a rating of 1. Private insurance benefits were then evaluated for how much they exceeded (were greater than 1) or fell short of (were less than 1) current WCB benefits.

The following items are worth noting:

- Typical private insurance medical and vocational rehabilitation benefits are 50% less valuable than WCB benefits.
- Typical private insurance death benefits are 30% more valuable than WCB death benefits.
- Typical private insurance disability benefits are 20% less valuable than WCB benefits.

When all benefits provided by the WCB were taken into consideration, the grand aggregate rating was .76. This means comparable private insurance benefits are of 24% less value than those provided by the WCB.

## ***Cost Comparison By Industry***

Within both the private insurance sector and the WCB, the cost of compensation coverage depends on the nature and degree of risk, which are in turn affected by accident experience.

The WCB bases its assessment costs solely on these factors. Though the private insurance sector uses these factors, it also uses a number of other factors, including group size, to determine the cost of coverage. The larger the group, the better the spread of risk and therefore the lower the cost of coverage. As a result, premiums are generally lower for larger employers and higher for smaller employers.

Because of this difference in approach between the WCB and the private insurance sector, cost comparisons were made using two major factors:

- the level of risk for the industry, ranging from low risk to very high risk
- group size, ranging from very small (1 to 10 employees) to very large (2501 or more employees).

## Low-Risk Industries

Table 2 shows a cost comparison for *low-risk industries* such as clerical and professional occupations and the public service.

For all sizes of groups, the cost of workers' compensation is lower than comparable private insurance coverage. This is particularly true for very small groups, some of whom might not be able to obtain private insurance coverage.

Table 2  
**Cost Comparison: Low-Risk Industries**

Size	Employees	Assessment per \$100 Salary	
		WCB	Insurance
Very Small	1–10	.50	.82 <sup>a</sup>
Small	11–100	.55	.79
Medium	101–500	.58	.75
Large	501–2500	.60	.71
Very Large	2501+	.62	.70

Comparison with private insurance based upon average costs and assuming comparable benefits

<sup>a</sup> Insurance market is limited

## Medium-Risk Industries

Table 4 shows a cost comparison for *medium-risk industries* such as agriculture, food processing, and most manufacturing industries.

For all sizes of groups, the cost of workers' compensation is competitive with the cost of comparable private insurance coverage. However, some very small groups might not be able to obtain private insurance coverage.

Table 4  
**Cost Comparison: Medium-Risk Industries**

Size	Employees	Assessment per \$100 Salary	
		WCB	Insurance
Very Small	1–10	3.40	3.45 <sup>a</sup>
Small	11–100	3.15	3.20
Medium	101–500	3.05	3.00
Large	501–2500	2.95	2.85
Very Large	2501+	2.90	2.80

Comparison with private insurance based upon average costs and assuming comparable benefits

<sup>a</sup> Insurance market is limited

## Medium-Low-Risk Industries

Table 3 shows a cost comparison for *medium-low-risk industries* such as retail, service industries, and the communications industry.

For all sizes of groups, the cost of workers' compensation is slightly higher than comparable private insurance coverage. The cost variance is greater for larger groups and lower for smaller groups. However, some very small groups might not be able to obtain private insurance coverage.

Table 3  
**Cost Comparison: Medium-Low-Risk Industries**

Size	Employees	Assessment per \$100 Salary	
		WCB	Insurance
Very Small	1–10	1.16	1.10 <sup>a</sup>
Small	11–100	1.19	1.05
Medium	101–500	1.20	1.00
Large	501–2500	1.21	0.95
Very Large	2501+	1.22	0.93

Comparison with private insurance based upon average costs and assuming comparable benefits

<sup>a</sup> Insurance market is limited

## Medium-High-Risk Industries

Table 5 shows a cost comparison for *medium-high-risk industries* such as construction, mining, and some oil and gas related industries.

For all sizes of groups, the cost of workers' compensation is lower than the cost of comparable private insurance coverage. This is particularly true for smaller groups. In addition, many very small groups might not be able to obtain private insurance coverage.

Table 5  
**Cost Comparison: Medium-High-Risk Industries**

Size	Employees	Assessment per \$100 Salary	
		WCB	Insurance
Very Small	1–10	6.00	7.15 <sup>a</sup>
Small	11–100	5.40	6.05
Medium	101–500	5.10	5.50
Large	501–2500	4.90	5.25
Very Large	2501+	4.80	5.10

Comparison with private insurance based upon average costs and assuming comparable benefits

<sup>a</sup> Insurance market is limited

## High-Risk Industries

Table 6 shows a cost comparison for *high-risk industries* such as transportation and some parts of the forestry industry.

For all sizes of groups, the cost of workers' compensation is significantly higher than the cost of the private insurance coverage which is currently available. This is particularly true for larger groups. However, there are a number of points which are worth noting:

- The lower cost of private insurance is directly related to the ability of a private insurance company to decline to insure some groups. The WCB does not have this option.
- When the right to decline a risk is removed, (see Facility Insurance column) the projected cost of private insurance coverage increases dramatically.
- When WCB costs are compared to the cost of Facility Insurance, the WCB cost is significantly lower for smaller groups, the same for medium sized groups, and somewhat higher for larger groups.
- For groups of less than 100 employees, current private insurance coverage is either limited or non-existent and in many cases the level of benefits is likely to be severely restricted.

Table 6

### Cost Comparison: High-Risk Industries

Size	Employees	Assessment per \$100 Salary		
		WCB	Competitive Insurance	Facility Insurance <sup>b</sup>
Very Small	1–10	9.70	<sup>a</sup>	11.60
Small	11–100	8.85	<sup>a</sup>	9.60
Medium	101–500	8.30	6.50	8.30
Large	501–2500	7.80	5.85	7.50
Very Large	2501+	7.55	5.50	7.00

Comparison with private insurance based upon average costs and assuming comparable benefits

<sup>a</sup> Insurance market is limited

<sup>b</sup> Facility insurance is used when insurance companies must offer insurance to all classes of risk.

## Very-High-Risk Industries

Table 7 shows a cost comparison for *very-high-risk industries* such as logging, well servicing, and roofing.

For all sizes of groups, the cost of workers' compensation is significantly higher than the cost of the private insurance which is currently available. This is particularly true for larger groups. However, there are a number of points which are worth noting:

- The lower cost of private insurance is directly related to the ability of a private insurance company to decline to insure some groups. The WCB does not have this option.
- When the right to decline a risk is removed, (see Facility Insurance column) the projected cost of private insurance coverage increases dramatically.
- When WCB costs are compared to the cost of Facility Insurance, the WCB cost is significantly lower for smaller groups, the same for medium sized groups, and somewhat higher for larger groups.
- For groups of less than 100 employees, current private insurance coverage is either limited or non-existent and in many cases the level of benefits is likely to be severely restricted.

Table 7

### Cost Comparison: Very-High-Risk Industries

Size	Employees	Assessment per \$100 Salary		
		WCB	Competitive Insurance	Facility Insurance <sup>b</sup>
Very Small	1–10	12.00	<sup>a</sup>	14.20
Small	11–100	11.15	<sup>a</sup>	12.10
Medium	101–500	10.50	8.00	10.50
Large	501–2500	9.70	7.20	9.45
Very Large	2501+	9.40	6.80	8.95

Comparison with private insurance based upon average costs and assuming comparable benefits

<sup>a</sup> Insurance market is limited

<sup>b</sup> Facility insurance is used when insurance companies must offer insurance to all classes of risk.

## **Comparison Of Administrative Expenses**

Many employers have expressed the concern that the cost of workers' compensation is directly driven by administrative costs which are higher than those which exist in the private insurance sector.

Table 8 shows that the WCB's overall administrative expenses are comparable to the private insurance sector. The following points are worth noting:

- Administrative costs for the WCB are fixed. They do not vary with the size of the group being insured.
- Administrative costs for the private insurance sector vary with the size of the group. They tend to be higher for smaller groups.

Both the private insurance sector and the WCB use income from their investment portfolios to offset their administrative expenses and thereby control the cost of coverage.

The Workers' Compensation Board - Alberta has approximately \$1.5 billion in assets and is the eighth largest such fund in North America. The performance of the WCB - Alberta investment portfolio is comparable to that of the private insurance sector in its ability to help hold down costs. However, the WCB tends to return more investment earnings to all sizes of groups.

Because the WCB's administrative costs do not vary with group size, as is the case with the private insurance sector, the return of investment dollars is of greatest benefit to smaller groups. Larger groups are disadvantaged by this approach in relation to the cost reduction available in the private insurance sector.

Table 8  
**Delivery Comparison Grid: Administration Expenses\***

Group Size	WCB					INSURANCE						
	General Admin	Claims Admin	Total	Interest	Net Total	General Admin	Sales	Claims Admin	Profit	Total	Interest	Net Total
Very Small	11%	7%	18%	(41%)	(23%)	16%	17%	7%	5%	45%	(25%)	20%
Small	11%	7%	18%	(41%)	(23%)	10%	11%	5%	4%	30%	(30%)	0%
Medium	11%	7%	18%	(41%)	(23%)	4%	7%	4%	3%	18%	(35%)	(17%)
Large	11%	7%	18%	(41%)	(23%)	2%	5%	3%	2%	12%	(38%)	(26%)
Very Large	11%	7%	18%	(41%)	(23%)	2%	4%	2%	2%	10%	(40%)	(30%)
Overall	11%	7%	18%	(41%)	(23%)	4%	6%	4%	3%	17%	(36%)	(19%)

\* Expenses are expressed as a % loading to basic claims cost (based upon WCB administration costs averaged over the last three years)

## **The Possible Effects Of Competition**

One might assume that if the private insurance sector were able to compete head on with the WCB, the end result would be a reduced cost for compensation coverage. However, a cursory examination of compensation costs in American states which have competing private and public plans does not show this to be the case.

## **Conclusions Of Project Consultants**

The specific observations of this study confirm many preconceived notions concerning the cost of workers' compensation coverage but call others into question.

It is the opinion of the Project Consultants that in a competitive environment, the Workers' Compensation Board - Alberta would compare very favourably with competitors from the private insurance sector. This ability to compete effectively would be a result of the WCB's size and experience.

This study highlights the various factors which make meaningful comparisons difficult and puts both the WCB and private insurance equivalents in their proper perspective.

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## **Workers' Compensation Coverage versus Private Insurance**

### ***A Comparative Study***

To receive a copy of the complete study, please clip out and mail this coupon to:

Public Affairs Department  
Workers' Compensation Board  
P.O. Box 2415  
Edmonton, Alberta  
T5J 2S5

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